

STARMONT COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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Starmont Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Martin Hanson	President	2007
Dan Hayes	Board Member	2005
Loren Johnson	Board Member	2007
Laura Morine	Board Member	2006
Tom Raithel	Board Member	2006
Tim Hamlett	Board Member	2005
Ryan Reichers	Board Member	2006

Board of Education
(After September 2005 Election)

Loren Johnson	President	2007
Martin Hanson	Board Member	2007
Laura Morine	Board Member	2006
Tom Raithel	Board Member	2006
Ryan Reichers	Board Member	2006

School Officials

Gary Stumberg	Superintendent	2006
Vicki Vanter	Board Secretary/ Business Manager	2006
Brian L. Gruhn	Attorney	2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Starmont Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Starmont Community School District, Arlington, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Starmont Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2006 on our consideration of Starmont Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Starmont Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

October 19, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Starmont Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$6,417,598 in fiscal 2005 to \$6,396,063 in fiscal 2006, while General Fund expenditures increased from \$6,341,492 in fiscal 2005 to \$6,632,140 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$1,652,852 in fiscal 2005 to \$1,416,775 in fiscal 2006, a 14.28% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in local taxes in fiscal 2006. The increase in expenditures was due primarily to an increase in the instruction functional area.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Starmont Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Starmont Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Starmont Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

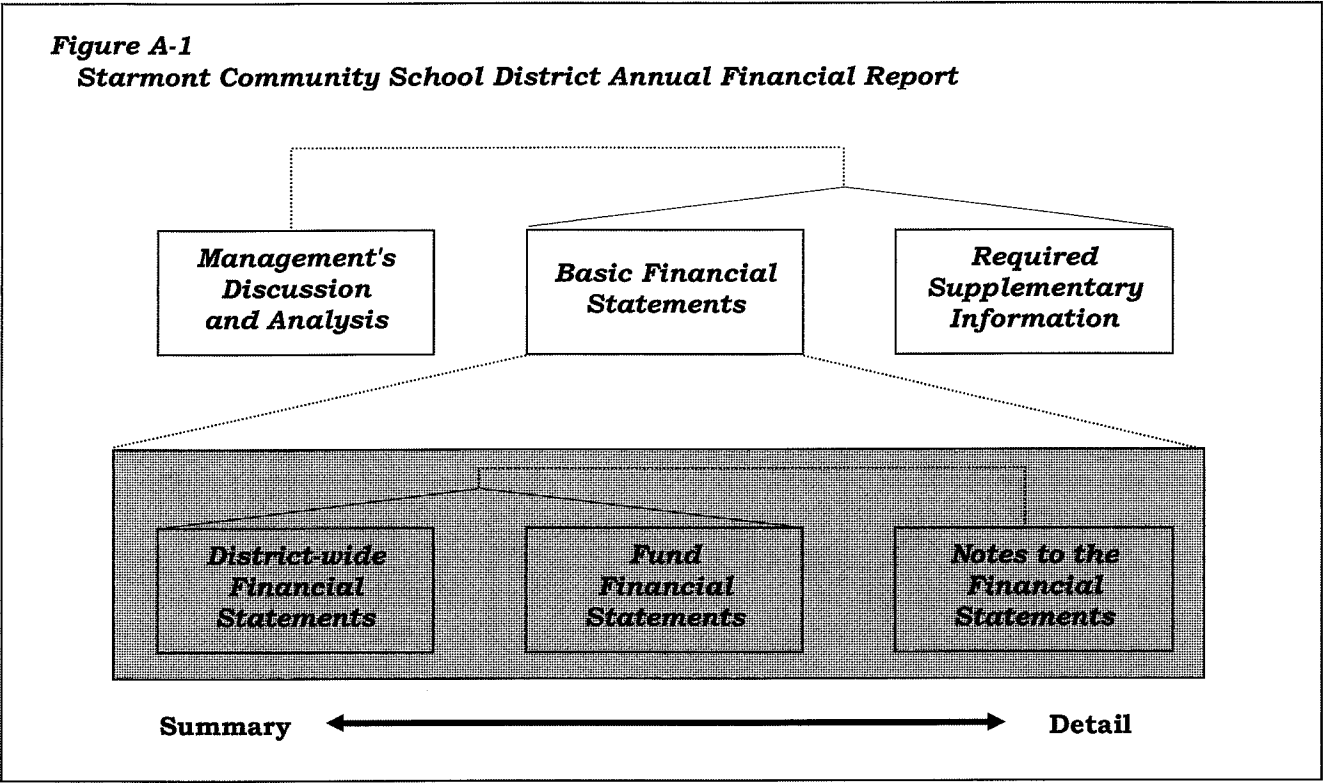


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is a trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 6,115,319	6,580,697	34,954	54,142	6,150,273	6,634,839	-7.30%
Capital assets	4,935,183	4,668,576	25,534	25,304	4,960,717	4,693,880	5.68%
Total assets	11,050,502	11,249,273	60,488	79,446	11,110,990	11,328,719	-1.92%
Long-term obligations	1,878,668	2,331,859	0	0	1,878,668	2,331,859	-19.43%
Other liabilities	4,008,681	4,202,904	9,025	5,902	4,017,706	4,208,806	-4.54%
Total liabilities	5,887,349	6,534,763	9,025	5,902	5,896,374	6,540,665	-9.85%
Net assets:							
Invested in capital assets, net of related debt	3,459,351	2,793,976	25,534	25,304	3,484,885	2,819,280	23.61%
Restricted	305,535	284,000	0	0	305,535	284,000	7.58%
Unrestricted	1,398,267	1,636,534	25,929	48,240	1,424,196	1,684,774	-15.47%
Total net assets	\$ 5,163,153	4,714,510	51,463	73,544	5,214,616	4,788,054	8.91%

The District's combined net assets increased by 8.91%, or \$426,562, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$21,535, or 7.58% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$260,578, or 15.47%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 492,891	564,257	166,991	161,032	659,882	725,289	-9.02%
Operating grants and contributions and restricted interest	949,937	881,487	169,144	152,987	1,119,081	1,034,474	8.18%
General revenues:							
Property tax	2,844,820	2,855,508	0	0	2,844,820	2,855,508	-0.37%
Local option sales and service tax	392,363	368,007	0	0	392,363	368,007	6.62%
Unrestricted state grants	2,823,258	2,835,530	0	0	2,823,258	2,835,530	-0.43%
Other	130,314	41,970	334	267	130,648	42,237	209.32%
Total revenues	7,633,583	7,546,759	336,469	314,286	7,970,052	7,861,045	1.39%
Program expenses:							
Governmental activities:							
Instructional	4,768,641	4,562,416	0	0	4,768,641	4,562,416	4.52%
Support services	1,832,039	1,845,731	0	0	1,832,039	1,845,731	-0.74%
Non-instructional programs	0	(58)	358,550	330,453	358,550	330,395	8.52%
Other expenses	584,260	1,114,638	0	0	584,260	1,114,638	-47.58%
Total expenses	7,184,940	7,522,727	358,550	330,453	7,543,490	7,853,180	-3.94%
Change in net assets	448,643	24,032	(22,081)	(16,167)	426,562	7,865	5323.55%
Net assets beginning of year	4,714,510	4,690,478	73,544	89,711	4,788,054	4,780,189	0.16%
Net assets end of year	\$ 5,163,153	4,714,510	51,463	73,544	5,214,616	4,788,054	8.91%

In fiscal 2006, property tax and unrestricted state grants account for 74.3% of the revenue from governmental activities while charges for services and operating grants and contributions account for nearly 100% of the revenue from business type activities.

The District's total revenues were approximately \$7.97 million of which \$7.63 million was for governmental activities and \$.34 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 1.39% in revenues and a 3.94% decrease in expenses. The decrease in expenses was related to the decrease in the other expenses function during the year.

Governmental Activities

Revenues for governmental activities were \$7,633,583 and expenses were \$7,184,940.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 4,768,641	3,578,602
Support services	1,832,039	1,828,028
Other expenses	584,260	335,482
Totals	<u>\$ 7,184,940</u>	<u>5,742,112</u>

- The cost financed by users of the District's programs was \$492,891.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$949,937.
- The net cost of governmental activities was financed with \$2,844,820 in property tax, \$392,363 in local option sales and services tax, \$2,823,258 in unrestricted state grants and \$54,744 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$336,469 and expenses were \$358,550. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Starmont Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,110,606 compared to last year's ending fund balances of \$2,382,550. However, the primary reason for the decrease in combined fund balances in fiscal 2006 is due to decrease in the General Fund in fiscal 2006.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors:
 - The District had a decrease in revenues and an increase in expenditures causing the General Fund balance to decrease substantially.

Proprietary Fund Highlights

The Proprietary Funds net assets decreased from \$73,544 at June 30, 2005 to \$51,463 at June 30, 2006, representing a decrease of 30%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$362,871 less than budgeted revenues, a variance of 4.4%. The most significant variance resulted from the District receiving less from local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual disbursements for the year.

In spite of the District's budgetary practice, expenditures in the instruction and other expenditures functional program areas exceeded the certified budget amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$4,960,717, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 5.38% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$191,665.

The original cost of the District's capital assets was \$8,644,916. Governmental funds account for \$8,520,071 with the remainder of \$124,845 in the Proprietary funds.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$4,444,540 at June 30, 2006, compared to \$5,095,640 reported at June 30, 2005.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 26,300	26,300	0	0	26,300	26,300	0.00%
Construction in progress	81,088	0	0	0	81,088	0	100.00%
Buildings	4,559,357	4,444,540	0	0	4,559,357	4,444,540	2.52%
Machinery and equipment	268,438	197,736	25,534	25,304	293,972	223,040	24.13%
Total	\$ 4,935,183	4,668,576	25,534	25,304	4,960,717	4,693,880	5.38%

Long-Term Debt

At June 30, 2006, the District had \$1,878,668 in general obligation and other long-term debt outstanding. This represents a decrease of 19.4% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had general obligation bonds payable of \$1,840,000 at June 30, 2006.

The District had compensated absences payable of \$17,925 from the General Fund at June 30, 2006.

The District had early retirement payable of \$20,743 from the Special Revenue, Management Levy Fund at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total		Total
	School District		Change
	June 30,		June 30,
	2006	2005	2005-06
General obligation bonds	\$ 1,840,000	2,270,000	-18.9%
Compensated absences	17,925	16,213	100.0%
Early retirement	20,743	45,756	-54.7%
Totals	\$ 1,878,668	2,331,969	-19.4%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Our declining enrollment is always a constant concern in our District. We will try to be very prudent so our School District remains financially healthy. We continue to explore different avenues for revenue, for example, grants. We have an excellent track record of writing grants and getting them approved. We all examine our individual departments yearly to make sure that we are doing the best that we can and are always looking for ways to improve to meet or exceed our expectations.
- In the 2008 fiscal year, we are going to a two principal district due to declining enrollment and the retirement of a principal.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Vicki Vanter, Business Manager, Starmont Community School District, 3202 40th Street, Arlington, Iowa, 50606.

BASIC FINANCIAL STATEMENTS

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 1,123,436	0	1,123,436
Other	2,078,218	21,058	2,099,276
Receivables:			
Property tax:			
Delinquent	55,572	0	55,572
Succeeding year	2,706,164	0	2,706,164
Accounts	0	2,843	2,843
Accrued ISCAP interest(Note 4)	349	0	349
Due from other governments	151,580	0	151,580
Inventories	0	11,053	11,053
Capital assets, net of accumulated depreciation(Note 5)	4,935,183	25,534	4,960,717
Total Assets	11,050,502	60,488	11,110,990
Liabilities			
Accounts payable	136,921	1,943	138,864
ISCAP warrants payable(Note 4)	1,125,000	0	1,125,000
ISCAP accrued interest payable(Note 4)	277	0	277
ISCAP unamortized premium	8,562	0	8,562
Accrued interest payable	3,968	0	3,968
Deferred revenue:			
Succeeding year property tax	2,706,164	0	2,706,164
Other	27,789	0	27,789
Unearned revenue	0	7,082	7,082
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	440,000	0	440,000
Compensated absences	17,925	0	17,925
Early retirement payable	20,743	0	20,743
Portion due after one year:			
General obligation bonds payable	1,400,000	0	1,400,000
Total Liabilities	5,887,349	9,025	5,896,374
Net Assets			
Investment in capital assets, net of related debt	3,459,351	25,534	3,484,885
Restricted for:			
Salary improvement program	583	0	583
Management levy	169,399	0	169,399
Physical plant and equipment levy	103,492	0	103,492
Other special revenue purposes	32,061	0	32,061
Unrestricted	1,398,267	25,929	1,424,196
Total Net Assets	\$ 5,163,153	51,463	5,214,616

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 3,020,385	241,756	655,844	(2,122,785)	0	(2,122,785)
Special instruction	877,823	23,164	42,345	(812,314)	0	(812,314)
Other instruction	870,433	223,960	2,970	(643,503)	0	(643,503)
	<u>4,768,641</u>	<u>488,880</u>	<u>701,159</u>	<u>(3,578,602)</u>	<u>0</u>	<u>(3,578,602)</u>
Support services:						
Student services	157,106	0	0	(157,106)	0	(157,106)
Instructional staff services	104,580	0	0	(104,580)	0	(104,580)
Administration services	731,733	0	0	(731,733)	0	(731,733)
Operation and maintenance of plant services	531,338	0	0	(531,338)	0	(531,338)
Transportation services	307,282	4,011	0	(303,271)	0	(303,271)
	<u>1,832,039</u>	<u>4,011</u>	<u>0</u>	<u>(1,828,028)</u>	<u>0</u>	<u>(1,828,028)</u>
Other expenditures:						
Facilities acquisitions	140,645	0	0	(140,645)	0	(140,645)
Long-term debt interest	56,291	0	0	(56,291)	0	(56,291)
AEA flowthrough	248,778	0	248,778	0	0	0
Depreciation(unallocated)*	138,546	0	0	(138,546)	0	(138,546)
	<u>584,260</u>	<u>0</u>	<u>248,778</u>	<u>(335,482)</u>	<u>0</u>	<u>(335,482)</u>
Total governmental activities	7,184,940	492,891	949,937	(5,742,112)	0	(5,742,112)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	358,550	166,991	169,144	0	(22,415)	(22,415)
Total business-type activities	<u>358,550</u>	<u>166,991</u>	<u>169,144</u>	<u>0</u>	<u>(22,415)</u>	<u>(22,415)</u>
Total	<u>\$ 7,543,490</u>	<u>659,882</u>	<u>1,119,081</u>	<u>(5,742,112)</u>	<u>(22,415)</u>	<u>(5,764,527)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 2,382,481	0	2,382,481
Debt service				403,159	0	403,159
Capital outlay				59,180	0	59,180
Local option sales and services tax				392,363	0	392,363
Unrestricted state grants				2,823,258	0	2,823,258
Unrestricted investment earnings				54,744	334	55,078
Other				75,570	0	75,570
Total general revenues				<u>6,190,755</u>	<u>334</u>	<u>6,191,089</u>
Changes in net assets				448,643	(22,081)	426,562
Net assets beginning of year				<u>4,714,510</u>	<u>73,544</u>	<u>4,788,054</u>
Net assets end of year				<u>\$ 5,163,153</u>	<u>51,463</u>	<u>5,214,616</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Other Nonmajor Governmental Funds	Total
Assets			
Cash and pooled investments			
ISCAP(Note 4)	\$ 1,123,436	0	1,123,436
Other	1,417,487	660,731	2,078,218
Receivables:			
Property tax:			
Delinquent	43,138	12,434	55,572
Succeeding year	2,202,848	503,316	2,706,164
Accrued ISCAP interest(Note 4)	349	0	349
Due from other governments	46,042	105,538	151,580
Total Assets	\$ 4,833,300	1,282,019	6,115,319
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 52,049	84,872	136,921
ISCAP warrants payable(Note 4)	1,125,000	0	1,125,000
ISCAP accrued interest payable(Note 4)	277	0	277
ISCAP unamortized premium	8,562	0	8,562
Deferred revenue:			
Succeeding year property tax	2,202,848	503,316	2,706,164
Other	27,789	0	27,789
Total liabilities	3,416,525	588,188	4,004,713
Fund balances:			
Reserved for:			
Salary improvement program	583	0	583
Debt service	0	103,023	103,023
Unreserved	1,416,192	590,808	2,007,000
Total fund balances	1,416,775	693,831	2,110,606
Total Liabilities and Fund Balances	\$ 4,833,300	1,282,019	6,115,319

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 15) \$ 2,110,606

***Amounts reported for governmental activities in the
statement of net assets are different because:***

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported as
assets in in the governmental funds. 4,935,183

Accrued interest payable on long-term liabilities is not due
and payable in the current period and, therefore, is not
reported as a liability in the governmental funds. (3,968)

Long-term liabilities, including bonds payable, compensated
absences and early retirement, are not due and payable in
the current period and, therefore, are not reported as
liabilities in the governmental funds. (1,878,668)

Net assets of governmental activites (page 13) \$ 5,163,153

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 2,207,612	1,029,571	3,237,183
Tuition	264,920	0	264,920
Other	122,846	207,573	330,419
Intermediate sources	30,836	0	30,836
State sources	3,319,714	376	3,320,090
Federal sources	450,135	0	450,135
Total revenues	6,396,063	1,237,520	7,633,583
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	3,015,063	27,621	3,042,684
Special instruction	877,718	0	877,718
Other instruction	670,349	198,091	868,440
	4,563,130	225,712	4,788,842
Support services:			
Student services	157,106	0	157,106
Instructional staff services	104,580	0	104,580
Administration services	697,949	33,784	731,733
Operation and maintenance of plant services	531,085	41,352	572,437
Transportation services	329,512	10,363	339,875
	1,820,232	85,499	1,905,731
Other expenditures:			
Facilities acquisitions	0	475,096	475,096
Long-term debt:			
Principal	0	430,000	430,000
Interest	0	57,080	57,080
AEA flowthrough	248,778	0	248,778
	248,778	962,176	1,210,954
Total expenditures	6,632,140	1,273,387	7,905,527
Deficiency of revenues under expenditures	(236,077)	(35,867)	(271,944)
Other financing sources(uses):			
Transfers in	0	85,177	85,177
Transfers out	0	(85,177)	(85,177)
Total other financing sources(uses)	0	0	0
Net change in fund balances	(236,077)	(35,867)	(271,944)
Fund balance beginning of year	1,652,852	729,698	2,382,550
Fund balance end of year	\$ 1,416,775	693,831	2,110,606

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ (271,944)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 453,427		
Depreciation expense	(186,820)		266,607

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 430,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 789

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	\$ 24,903		
Compensated absences	(1,712)		23,191

Changes in net assets of governmental activities (page 14) \$ 448,643

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
Assets	
Cash and pooled investments	\$ 21,058
Accounts receivable	2,843
Inventories	11,053
Capital assets, net of accumulated depreciation (Note 5)	<u>25,534</u>
Total Assets	<u>60,488</u>
Liabilities	
Accounts payable	1,943
Unearned revenue	<u>7,082</u>
Total Liabilities	<u>9,025</u>
Net Assets	
Investment in capital assets, net of related debt	25,534
Unrestricted	<u>25,929</u>
Total Net Assets	<u><u>\$ 51,463</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 166,991
TOTAL OPERATING REVENUES	<u>166,991</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	127,320
Benefits	23,595
Services	11,715
Supplies	191,075
Depreciation	4,845
TOTAL OPERATING EXPENSES	<u>358,550</u>
OPERATING LOSS	<u>(191,559)</u>
NON-OPERATING REVENUES:	
State sources	4,729
Federal sources	164,415
Interest on investments	334
TOTAL NON-OPERATING REVENUES	<u>169,478</u>
Change in net assets	(22,081)
Net assets beginning of year	<u>73,544</u>
Net assets end of year	<u>\$ 51,463</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 164,691
Cash received from miscellaneous	3,160
Cash payments to employees for services	(150,915)
Cash payments to suppliers for goods or services	(180,576)
Net cash used in operating activities	<u>(163,640)</u>
Cash flows from non-capital financing activities:	
State grants received	4,729
Federal grants received	143,693
Net cash provided by non-capital financing activities	<u>148,422</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(5,075)
Net cash used in capital and related financing activities	<u>(5,075)</u>
Cash flows from investing activities:	
Interest on investments	334
Net cash provided by investing activities	<u>334</u>
Net decrease in cash and cash equivalents	(19,959)
Cash and cash equivalents at beginning of year	<u>41,017</u>
Cash and cash equivalents at end of year	<u><u>\$ 21,058</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (191,559)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	20,722
Depreciation	4,845
Decrease in inventories	2,072
Increase in accounts receivable	(2,843)
Decrease in accounts payable	(580)
Increase in unearned revenue	3,703
Net cash used in operating activities	<u><u>\$ (163,640)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 21,058</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$20,722.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Assets	
Cash and pooled investments	<u>\$ 73,730</u>
Liabilities	<u>0</u>
Net Assets	
Reserved for scholarships	<u><u>\$ 73,730</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2006

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest on investment	<u>\$ 1,574</u>
Deductions:	
Instruction:	
Scholarships awarded	<u>3,710</u>
Change in net assets	(2,136)
Net assets beginning of year	<u>75,866</u>
Net assets end of year	<u>\$ 73,730</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Starmont Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Arlington, Strawberry Point and Lamont, Iowa, and the predominate agricultural territory in Buchanan, Fayette, Delaware and Clayton Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Starmont Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Starmont Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Buchanan, Fayette, Delaware and Clayton Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District's proprietary fund is the School Nutrition Fund. The Nutrition fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for

enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government

commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account

balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount or earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements in the instruction and other expenditures functions exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured or registered in the District's name.

At June 30, 2006, the District had investments in certificates of deposit, stated at fair value, maturing over a year as follows:

	<u>Fair Value</u>
Certificates of deposit	<u>\$ 75,806</u>

(3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 85,177</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2006-07A	6/28/2006	6/28/2007	<u>\$ 1,123,436</u>	<u>349</u>	<u>1,125,000</u>	<u>277</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no advance activity for the year ended June 30, 2006.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000%	3.903%
2006-07A	4.500%	5.676%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 26,300	0	0	26,300
Construction in progress	0	81,088	0	81,088
Total capital assets not being depreciated	26,300	81,088	0	107,388
Capital assets being depreciated:				
Buildings	6,886,000	253,363	0	7,139,363
Land improvements	80,000	0	0	80,000
Machinery and equipment	1,185,265	118,976	110,921	1,193,320
Total capital assets being depreciated	8,151,265	372,339	110,921	8,412,683
Less accumulated depreciation for:				
Buildings	2,441,460	138,546	0	2,580,006
Land improvements	80,000	0	0	80,000
Machinery and equipment	987,529	48,274	110,921	924,882
Total accumulated depreciation	3,508,989	186,820	110,921	3,584,888
Total capital assets being depreciated, net	4,642,276	185,519	0	4,827,795
Governmental activities capital assets, net	\$ 4,668,576	266,607	0	4,935,183
Business-type activities:				
Machinery and equipment	\$ 119,770	5,075	0	124,845
Less accumulated depreciation	94,466	4,845	0	99,311
Business-type activities capital assets, net	\$ 25,304	230	0	25,534

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 3,079
Other	1,993

Support services:

Operation and maintenance of plant	8,113
Transportation	35,089
	48,274
Unallocated depreciation	138,546

Total governmental activities depreciation expense \$ 186,820

Business-type activities:

Food service operations	\$ 4,845
Total business-type activities depreciation expense	<u>\$ 4,845</u>

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,270,000	0	430,000	1,840,000	440,000
Compensated absences	16,213	17,925	16,213	17,925	17,925
Early retirement	45,646	0	24,903	20,743	20,743
Total	<u>\$ 2,331,859</u>	<u>17,925</u>	<u>471,116</u>	<u>1,878,668</u>	<u>478,668</u>

General Obligation Bonds Payable

Details of the Districts June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	2.50 %	\$ 440,000	92,286	532,286
2008	2.65	450,000	70,340	520,340
2009	2.95	470,000	46,515	516,515
2010	3.25	480,000	20,665	500,665
Total		<u>\$ 1,840,000</u>	<u>229,806</u>	<u>2,069,806</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentive for each employee is equal to a

percentage of years eligible times the employees salary received by the retiree equal to 70 days pay. Early retirement benefits paid during the year ended June 30, 2006, totaled \$24,903.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$215,383, \$206,656 and \$206,068 respectively, equal to the required contributions for each year.

(8) Risk Management

Starmont Community School District is a member in the Northeast Iowa Schools Insurance Trust, and Iowa Code Chapter 28E organization. The Northeast Iowa Schools Insurance Trust (NEIST) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. NEIST was formed in July 1999 for the purpose of managing and funding employee benefits. NEIST provides coverage and protection in the following categories: medical, dental, LTD, and life insurance.

Each member's contributions to NEIST funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a GAAP basis, NEIST's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to NEIST for the year ended June 30, 2006 was \$774,509.

Payments from participating members are the sole source for paying claims and establishing reserves for the NEIST self-funded programs. Stop loss insurance is purchased by NEIST to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonable estimated. Accordingly, at June 30, 2006, no liability has been recorded in the District's financial statements. As of June 30,

2006, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. NEIST will pay claims incurred before the termination date.

Starmont Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$248,778 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the instruction and other expenditures functions exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

STARMONT COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 3,832,522	167,325	3,999,847	4,287,441	4,287,441	(287,594)
Intermediate sources	30,836	0	30,836	99,000	99,000	(68,164)
State sources	3,320,090	4,729	3,324,819	3,402,982	3,402,982	(78,163)
Federal sources	450,135	164,415	614,550	543,500	543,500	71,050
Total revenues	7,633,583	336,469	7,970,052	8,332,923	8,332,923	(362,871)
Expenditures:						
Instruction	4,788,842	0	4,788,842	4,575,858	4,575,858	(212,984)
Support services	1,905,731	0	1,905,731	2,527,642	2,534,763	629,032
Non-instructional programs	0	358,550	358,550	330,000	510,000	151,450
Other expenditures	1,210,954	0	1,210,954	973,575	786,454	(424,500)
Total expenditures	7,905,527	358,550	8,264,077	8,407,075	8,407,075	142,998
Excess(deficiency) of revenues over(under) expenditures	(271,944)	(22,081)	(294,025)	(74,152)	(74,152)	219,873
Other financing sources, net	0	0	0	(85,177)	(85,177)	(85,177)
Excess(deficiency) of revenues over(under) expenditures and other financing uses	(271,944)	(22,081)	(294,025)	(159,329)	(159,329)	134,696
Balance beginning of year	2,382,550	73,544	2,456,094	1,583,844	1,583,844	872,250
Balance end of year	\$ 2,110,606	51,463	2,162,069	1,424,515	1,424,515	737,554

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STARMONT COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the Cash basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year ended June 30, 2006 the District adopted one budget amendment which only reclassified the expenditures between the functions.

During the year ended June 30, 2006, expenditures in the instruction and other expenditures functions exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

STARMONT COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds							Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Capital Projects	Debt Service	
Assets								
Cash and pooled investments	\$ 186,725	15,396	105,216	23,792	331,129	234,444	95,158	660,731
Receivables:								
Property tax:								
Current year delinquent	3,417	0	1,152	0	4,569	0	7,865	12,434
Succeeding year	75,000	0	59,798	0	134,798	0	368,518	503,316
Due from other governments	0	0	0	0	0	105,538	0	105,538
Total Assets	\$ 265,142	15,396	166,166	23,792	470,496	339,982	471,541	1,282,019
Liabilities and Fund Balances								
Liabilities:								
Accounts payable	\$ 0	7,127	2,876	0	10,003	74,869	0	84,872
Deferred revenue:								
Succeeding year property tax	75,000	0	59,798	0	134,798	0	368,518	503,316
Total liabilities	75,000	7,127	62,674	0	144,801	74,869	368,518	588,188
Fund balances:								
Reserved for:								
Debt service	0	0	0	0	0	0	103,023	103,023
Unreserved	190,142	8,269	103,492	23,792	325,695	265,113	0	590,808
Total fund balances	190,142	8,269	103,492	23,792	325,695	265,113	103,023	693,831
Total Liabilities and Fund Balances	\$ 265,142	15,396	166,166	23,792	470,496	339,982	471,541	1,282,019

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STARMONT COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds							Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Capital Projects	Debt Service	
REVENUES:								
Local sources:								
Local tax	\$ 174,869	0	59,180	0	234,049	392,363	403,159	1,029,571
Other	4,650	194,144	2,241	1,777	202,812	3,213	1,548	207,573
State sources	103	0	35	0	138	0	238	376
TOTAL REVENUES	179,622	194,144	61,456	1,777	436,999	395,576	404,945	1,237,520
EXPENDITURES:								
Current:								
Instruction:								
Regular instruction	27,621	0	0	0	27,621	0	0	27,621
Other instruction	0	196,654	0	1,437	198,091	0	0	198,091
Support services:								
Administration services	32,827	0	0	0	32,827	0	957	33,784
Operation and maintenance of plant services	41,352	0	0	0	41,352	0	0	41,352
Student transportation	10,363	0	0	0	10,363	0	0	10,363
Other expenditures:								
Facilities acquisitions	0	0	130,591	0	130,591	344,505	0	475,096
Long-term debt:					0			
Principal	0	0	0	0	0	0	430,000	430,000
Interest	0	0	0	0	0	0	57,080	57,080
TOTAL EXPENDITURES	112,163	196,654	130,591	1,437	440,845	344,505	488,037	1,273,387
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	67,459	(2,510)	(69,135)	340	(3,846)	51,071	(83,092)	(35,867)
OTHER FINANCING SOURCES (USES):								
Transfers in	0	0	0	0	0	0	85,177	85,177
Transfers out	0	0	0	0	0	(85,177)	0	(85,177)
TOTAL OTHER FINANCING SOURCES (USES)	0	0	0	0	0	(85,177)	85,177	0
NET CHANGE IN FUND BALANCES	67,459	(2,510)	(69,135)	340	(3,846)	(34,106)	2,085	(35,867)
FUND BALANCE BEGINNING OF YEAR	122,683	10,779	172,627	23,452	329,541	299,219	100,938	729,698
FUND BALANCE END OF YEAR	\$ 190,142	8,269	103,492	23,792	325,695	265,113	103,023	693,831

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STARMONT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics	\$ (57,117)	67,955	80,617	(69,779)
Clubs/Organizations	(17,850)	67,218	61,185	(11,817)
General Activity	5,779	6,378	3,761	8,396
Classes	11,345	5,804	7,409	9,740
Elementary	20,311	19,877	14,399	25,789
Middle School	48,311	26,912	29,283	45,940
Total	\$ 10,779	194,144	196,654	8,269

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STARMONT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax		\$ 3,237,183	3,223,515	3,112,323	2,931,187
Tuition		264,920	267,575	281,318	223,834
Other		330,419	305,444	305,555	337,010
Intermediate sources		30,836	33,208	81,332	25,819
State sources		3,320,090	3,304,236	3,318,245	3,412,668
Federal sources		450,135	412,781	624,760	398,888
Total		<u>\$ 7,633,583</u>	<u>7,546,759</u>	<u>7,723,533</u>	<u>7,329,406</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction		\$ 3,042,684	2,848,767	2,929,285	2,484,402
Special instruction		877,718	846,947	1,092,102	914,090
Other instruction		868,440	864,244	731,187	720,548
Support services:					
Student services		157,106	167,889	140,093	150,921
Instructional staff services		104,580	102,330	98,399	120,061
Administration services		731,733	716,653	623,621	772,822
Operation and maintenance of plant services		572,437	839,606	513,752	467,143
Transportation services		339,875	25,189	363,704	309,831
Other expenditures:					
Facilities acquisitions		475,096	150,406	29,386	10,756
Long-term debt:					
Principal		430,000	425,000	400,000	365,000
Interest		57,080	65,945	93,401	180,804
AEA flow-through		248,778	247,899	252,357	270,780
Total		<u>\$ 7,905,527</u>	<u>7,300,875</u>	<u>7,267,287</u>	<u>6,767,158</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STARMONT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION (non-cash)	10.550	FY 06	<u>20,722</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	21,157
SUMMER FOOD SERVICE PROGRAM	10.559	FY 06	2,843
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	<u>106,879</u>
			<u>130,879</u>
FRESH FRUIT & VEGETABLE PROGRAM	10.582	FY 06	<u>12,814</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	6175-G-06	116,097
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	6175-GC	<u>13,850</u>
			<u>129,947</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)	84.298	FY 06	<u>2,724</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 06	<u>5,528</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	887
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 05	39,602
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 06	<u>39,346</u>
			<u>79,835</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 06	<u>4,686</u>
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332	FY 06	<u>108,824</u>

STARMONT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO			
STATES (PART B)	84.027	FY 06	42,345
TOTAL			\$ 538,304

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Starmont Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general-purpose financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
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Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Starmont Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Starmont Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 19, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Starmont Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

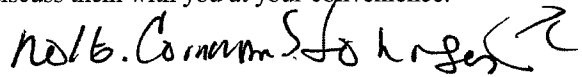
As part of obtaining reasonable assurance about whether Starmont Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Starmont Community School District and other parties to whom Starmont Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Starmont Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

October 19, 2006

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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of the
Starmont Community School District:

Compliance

We have audited the compliance of Starmont Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Starmont Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Starmont Community School District's management. Our responsibility is to express an opinion on Starmont Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Starmont Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Starmont Community School District's compliance with those requirements.

In our opinion, Starmont Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Starmont Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Starmont Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

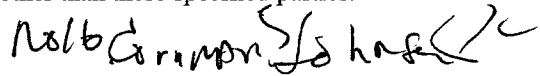
We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Starmont Community School District's ability to administer

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a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Starmont Community School District and other parties to whom Starmont Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

October 19, 2006

STARMONT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Report

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program were as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.559 - Summer Food Service Program
 - Individual
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Starmont Community School District did not qualify as a low-risk auditee.

STARMONT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-06 Authorized Check Signatures - Checks written from the PPEL bank account only have one signature. Chapter 291.1 of the Code of Iowa requires the Board President and Board Secretary to sign all checks written by the District. The Board President can designate an individual other than himself/herself, however the Board Secretary may not designate an alternative authorized signer.

Recommendation - The District should require all checks to be signed by both the Board Secretary and the Board President or his/her designated individual.

Response - Will continue to monitor this so it does not happen again.

Conclusion - Response accepted.

II-C-06 Substance-Free Workplace Policy - We noted during our audit that the District had not implemented a substance-free workplace policy.

Recommendation - The District should review the policies in place and update the necessary policies.

Response - The District is reviewing all of their board policies at this time.

Conclusion - Response accepted.

II-D-06 Payroll Procedures - We noted during the audit that an employee is not receiving the proper compensation according to their contract and another employee who is receiving a separate check for officiating which is not included on their W-2.

Recommendation - The District should review their procedures to ensure that all employees are making their contracted rates and that all income earned by employees is added to their W-2's.

Response - Will continue to monitor this procedure and will make the necessary changes.

Conclusion - Response accepted.

- II-E-06 Student Activity Fund Procedures - During our audit issues arose about the properness of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8).

More specifically, there were computers purchased that would more properly be accounted in another fund.

We also noted that a purchase order was paid without an invoice for supporting documentation.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended. The District should also review its procedures to ensure that all purchase orders have accompanying invoices for supporting documentation.

Response - Will continue to strive to make only appropriate expenditures in this fund.

Conclusion - Response accepted.

- II-F-06 PPEL/Capital Project Expenditures - We noted that the District is currently making purchases from the Capital Projects and Special Revenue, Physical Plant and Equipment Levy(PPEL) Fund which do not appear to be in compliance with Chapter 423 and 298 of the Code of Iowa. The Capital Projects Fund may be used in accordance with PPEL provisions. However, the District purchases do not appear to meet the required guidelines. The District purchased numerous items related to technology which was below the single unit price of \$500. The District also purchased from the PPEL Fund, advisory services related to technology and from the Capital Projects Fund, folding chairs.

Recommendation - The District should review their procedures to ensure that purchases made from these funds are in compliance with Chapter 423 and 298 of the Code of Iowa.

Response - We have reviewed our procedures and will only make the appropriate expenditures from this fund.

Conclusion - Response accepted.

STARMONT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

III-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

STARMONT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, exceeded the certified budget amounts in the instruction and other expenditures functions.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - The Board Secretary will try and amend said budgets before the end of the fiscal year if warranted.

Conclusion - Response accepted.

IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - No business transactions between the District and District Officials or employees were noted.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposits and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificate of Deposit.

Recommendation - The District should contact the appropriate bank and rectify the situation.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

IV-I-06 Certified Annual Report - The Certified Annual Report was not properly certified to the Iowa Department of Education by October 13, 2006.

Recommendation - In the future, the District should ensure the Certified Annual Report is timely certified to the Iowa Department of Education.

Response - The District will do the best of their ability to ensure that the report will be filed in a timely manner in the future.

Conclusion - Response accepted.

IV-J-06 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains

cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - I have contacted the appropriate bank and are now receiving the backs of each cancelled check.

Conclusion - Response accepted.

IV-K-06 Financial Condition - The District has negative accounts within the Special Revenue, Student Activity Fund

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - We as a District will be utilizing the districts vending machine revenues to help the negative accounts and also will be looking at fund raisers to do the same.

Conclusion - Response accepted.